

**BEFORE THE INSURANCE COMMISSIONER  
FOR THE STATE OF ARKANSAS**

**IN THE MATTER OF  
THE REPORT OF EXAMINATION  
OF QUALCHOICE ADVANTAGE, INC.**

**A.I.D. NO. 2019- 43**

**ADOPTION ORDER**

Now on this day the matter of the Examination Report ("Report") as of December 31, 2017, of QualChoice Advantage, Inc. ("Company"), of Little Rock, Arkansas, NAIC No. 15751, is taken under consideration by Allen Kerr, Insurance Commissioner for the State of Arkansas ("Commissioner"), as presented by Associate Counsel, Amanda Capps Rose, and the Finance Division of the Arkansas Insurance Department ("Department"). From the facts, matters and other things before him, the Commissioner finds as follows:

**FINDINGS OF FACT**

1. The Company is an Arkansas-domiciled accident and health insurer with authority limited to Medicare only products.
2. Pursuant to Ark. Code Ann. §§ 23-61-201, *et seq.*, the Commissioner authorized and directed the Department to conduct a regular examination of the affairs, transactions, accounts, records, and assets of the Company as of December 31, 2017.
3. Said examination was commenced by the Department on January 12, 2018, and completed on March 29, 2019.
4. The verified Report was filed with the Department on May 15, 2019. It was then mailed to the Company via certified mail on May 15, 2019. The Company received the Report on May 20, 2019, according to the tracking service available through the United States Postal Service.

5. The Company failed to prepare its financial statements in accordance with the NAIC “Annual and Quarterly Statement Instructions”. Specifically, the Company failed to appoint the actuary in 2015, failed to formally document presentation from the opining actuary to the Board of Directors and failed to provide a complete presentation of affiliated entities in Schedule Y. Additionally, the reporting of Arvest Bank as investment custodian was incorrect in General Interrogatory 28.01, and General Interrogatory, part 1, questions 28, 28.01 and 28.02 were inconsistent in that question 28 stated that there were no custodial agreements. However, the response to 28.01 indicated two custodian agreements, both of which were listed as in compliance with the NAIC Financial Condition Examiners Handbook in 28.01 and 28.02.

6. The Company’s Executive Finance Committee’s charter designated the Executive Financial Committee to act as the Audit Committee.

7. The Company had no plan for handling insolvency that allowed for the continuation of benefits.

8. During the examination period, the Company may not have maintained a consistently adequate Premium Deficiency Reserve or adequate reserves for Claims Unpaid.

9. The Company failed to establish liability for unpaid claim adjustment expenses regardless of payments made to a third party, rendering the claims adjustment expenses deficient.

10. In correspondence received June 6, 2019, the Company acknowledged receipt of the Report and provided comments that were taken into consideration by the Department.

### CONCLUSIONS OF LAW

Based upon the above and foregoing Findings of Fact, the Commissioner makes the following Conclusions of Law:

1. The Commissioner and the Department have jurisdiction over the parties and the subject matter contained herein.

2. This Order has been properly entered in accordance with the Arkansas Insurance Code and Department Rules.

3. The Company's failure to prepare its financial statements in accordance with the NAIC "Annual and Quarterly Statement Instructions" is a violation of Ark. Code Ann. § 23-76-113.

4. The Company was unable to provide evidence that its acting Audit Committee was in compliance with Section 14.A of Department Rule 25.

5. The Company's failure to have a plan in place for handling insolvency that allowed for continuation of benefits is a violation of Ark. Code Ann. § 23-76-118(c).

6. The Company's failure to establish liability for unpaid claim adjustment expenses, regardless of payments made to a third party as required by the NAIC Accounting Practices & Procedures Manual's Statement of Statutory Accounting Principles No. 55 is a violation of Ark. Code Ann. § 23-63-216.

**THEREFORE**, pursuant to the provisions of Ark. Code Ann. § 23-61-205, the Commissioner hereby orders:

1. That the Examination Report, as filed with the Department, is hereby adopted;

2. That, with regard to the items in Findings of Fact above:

- (a) That the Company shall prepare its financial statements in accordance with the NAIC “Annual and Quarterly Statement Instructions” as required by Ark. Code Ann. § 23-76-113.
- (b) That the Company comply with Section 14.A of Department Rule 25 with regard to its Audit Committee.
- (c) That the Company shall provide the Department with a plan for handling insolvency that allows for continuation of benefits as required by Ark. Code Ann. § 23-76-118(c) within forty-five (45) days of the date of this Adoption Order.
- (d) That the Company shall comply with the NAIC Accounting Practices & Procedures Manual’s Statement of Statutory Accounting Principles No. 55 as required by Ark. Code Ann. § 23-63-216.

3. That the Department shall forward a copy of this Order and the adopted Examination Report, as filed, to the Company via certified mail. The mailing to the Company shall include specimen affidavit forms for the Company’s Directors to use in acknowledgement of receipt of the adopted Report of Examination and this Order;

4. That within twenty (20) days of receipt of this Order and the adopted Examination Report, the Company shall file with the Department affidavits executed by each one of its Directors, stating under oath or affirmation that each has received a copy of this Order and the adopted Examination Report; and

5. That the adopted Examination Report shall be open for public inspection upon the expiration of thirty (30) days from the Company’s receipt of this Order.

IT IS SO ORDERED this 18<sup>th</sup> day of June, 2019.

A handwritten signature in black ink, appearing to read 'Allen Kerr', written over a horizontal line.

ALLEN KERR  
INSURANCE COMMISSIONER  
STATE OF ARKANSAS